

## PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



October 4, 2019

Proposed Resolution W-5207 (Option B)

Agenda ID: 17808

To: All Interested Persons

Enclosed is Proposed Resolution W-5207 (Option B) of the Water Division, which grants San Jose Water Company's request to implement a surcharge of \$0.196 per 100 cubic feet added to the quantity rates over twelve months to recover in rates the \$9,020,356 in lost revenues. Proposed Resolution W-5207 (Option B) is scheduled to appear on the November 7, 2019 Commission Meeting Agenda (ID#17808).

The Commission may act on this resolution or it may postpone action until later. When the Commission acts on a proposed resolution, the Commission may adopt all or part of the proposed resolution, as written, or amend or modify the proposed resolution; or the Commission may set the proposed resolution aside and prepare a different resolution. Only when the Commission acts does the resolution become binding.

Interested persons may submit comments on Proposed Resolution W-5207 (Option B) via email to [Water.Division@cpuc.ca.gov](mailto:Water.Division@cpuc.ca.gov) on or before **October 24, 2019**. Please reference **"Proposed Resolution W-5207 (Option B)"** in the subject line.

Interested persons must also serve a copy of their comments on the utility on the same date that the comments are submitted to the Water Division. If email is unavailable, please submit comments to:

California Public Utilities Commission  
Water Division  
505 Van Ness Avenue  
San Francisco, CA 94102

Comments should focus on factual, legal, technical errors, or policy issues in the proposed resolution.

Persons interested in receiving comments submitted may contact the Water Division at [Water.Division@cpuc.ca.gov](mailto:Water.Division@cpuc.ca.gov) or (415) 703-1133. Please reference "Proposed Resolution W-5207 (Option B)."

/s/BRUCE DEBERRY

Bruce DeBerry, Program Manager  
Water Division

Enclosures: Proposed Resolution W-5207 (Option B)  
Certificate of Service  
Service List

# PROPOSED RESOLUTION

Resolution W-5207 (Option B)  
WD

Agenda ID #17808

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION W-5207 (Option B)  
November 7, 2019

### RESOLUTION

(RES. W-5207 – OPTION B), SAN JOSE WATER COMPANY (SJWC).  
ORDER AUTHORIZING SURCHARGES TO RECOVER \$9,020,536  
BALANCE IN WATER CONSERVATION MEMORANDUM  
ACCOUNT (WCMA) FOR LOST REVENUES DUE TO  
CONSERVATION FOR THE PERIOD OF JANUARY 1-DECEMBER 31,  
2018.

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By Advice Letter 532-W, filed March 29, 2019.

### SUMMARY

This Resolution grants San Jose Water Company's (SJWC) request to recover in rates, \$9,020,356 by adding a surcharge of \$0.1960 per 100 cubic feet (ccf) to the Quantity Rates in each customer's bill to be recovered over twelve months. The increases requested are to recover lost revenues tracked in SJWC's Water Conservation Memorandum Account (WCMA), using Commission approved Water Conservation Memorandum Account (WCMA) methodology, resulting from reduced water consumption by customers during the period of January 1, 2018 through December 31, 2018.

### BACKGROUND

On January 17, 2014, Governor Edmund G. Brown Jr., proclaimed a Drought State of Emergency and directed state officials to take all necessary actions to prepare for these drought conditions.<sup>1</sup> On January 28th, 2014 the Santa Clara Valley Water District (SCVWD)<sup>2</sup> Board of Directors (Board) set a preliminary 2014 water reduction

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<sup>1</sup> "Governor Brown Declares Drought State of Emergency": <http://gov.ca.gov/news.php?id=18368>

<sup>2</sup> The SCVWD is responsible for managing the water supply in Santa Clara County. About 50% of the water supply for SJWC is obtained through a contract with the SCVWD.

## PROPOSED RESOLUTION

Resolution W-5207 (Option B)  
WD

November 7, 2019

target equal to 10 percent of 2013 water use in Santa Clara County. On February 25, 2014, in response to the worsening water supply outlook for Santa Clara County, the SCVWD Board passed a resolution calling for mandatory measures to reach a water use reduction target equal to 20 percent of 2013 water use, through December 31, 2014 and 30% in 2015. On February 27th, 2014 the Commission issued Resolution W-4976 adopting drought procedures for water conservation, rationing and service connection moratoria ("Drought Procedures") and required that all Class A and B water utilities that had an existing Tariff Rule 14.1 activate the Rule within 30 days of the Resolution effective date. The Drought Procedures, in addition to providing steps to be taken when a utility suffers from a water shortage, provided that a utility without a full revenue decoupling Water Revenue Adjustment Mechanism (WRAM) may request to add a memorandum account to track lost revenue associated with reduced sales as a result of activating Rule 14.1.

By AL 456-A, approved on March 31, 2014, SJWC responded to both the Governor's declaration as well as a water use reduction target of 20% of 2013 usage established by local wholesale supplier, the Santa Clara Valley Water District

Both AL 472/AL 472A were approved by the CPUC effective June 15, 2015 and both modified Rule 14.1 and the new Schedule 14.1 became effective on June 15, 2015. As of December 31, 2015 all drought surcharges collected through the end of 2015 have been tracked in SJWC's WCMA to offset lost revenues as allowed in the approved Schedule 14.1 – Special Condition 6.

In light of improved water supply conditions in 2016, the State Water Resources Control Board removed its mandated conservation targets for urban water suppliers. SJWC received approval from the Commission via AL 491 to update the drought allocations to match the SCVWD's new water use reduction goal under Schedule 14.1 effective July 1, 2016. The Commission approved SJWC AL 505 to suspend the drought allocations and surcharges under Schedule 14.1.

On April 07, 2017, the Governor's Executive Order B-40-17 declared the drought emergency over and rescinded the drought emergency proclamations and SCVWD reduced mandatory reduction to 20% on April 25, 2017.

The 2016 and 2017 WCMA balances were resolved in SJWC's 2018 General Rate Case. Uncovered fixed costs tracked in WCMA in 2016 and 2017 were offset by drought

# PROPOSED RESOLUTION

Resolution W-5207 (Option B)  
WD

November 7, 2019

surcharges collected in the same period and netted against other memorandum accounts as provided in D.18-11-025.

The total lost revenue of \$8,935,385, includes the required 20 basis point adjustment in SJWC's return on equity and with interest at the 90-day commercial rate provides a total WCMA under-collection of \$9,020,356, which results in a surcharge of \$0.1960 per ccf to be applied to all potable and raw water usage for a 12-month period. The memorandum account surcharge will result in an increase of \$2.19 per month, or approximately 2.26% for a customer with  $\frac{3}{4}$  inch-meter using 11ccf per month.

## NOTICE AND PROTESTS

SJWC mailed a copy of AL 532 to its AL 532 service list. A public notice of its rate increase request was also mailed to all customers in compliance with General Order 96-B, Water Industry Rule 3.1 and General Rule 4.2. 375 protests or comments were received as of April 28, 2019. The Public Advocates Office (PA) at the Commission, City of San Jose and City of Monte Sereno also filed protests on behalf of the customers of SJWC.

### *Protests by Customers*

375 protests or comments were received from other interested parties. Some issues raised by the protestants included:

- Utility did not properly serve or give notice of the advice letter.
- The relief requested in the advice letter would violate statute or Commission order, or is not authorized by statute or Commission order on which the utility relies.
- The relief requested in the advice letter requires consideration in a formal hearing, or is otherwise inappropriate for the advice letter process.
- The relief requested in the advice letter is unjust, unreasonable, or discretionary.
- The analysis, calculations, or data in the advice letter contain material error or omissions.
- The surcharge should not penalize customers who conserved.
- SJWC should reduce their costs.

# PROPOSED RESOLUTION

Resolution W-5207 (Option B)  
WD

November 7, 2019

## *SJWC's responses to protests from other parties and Customers*

SJWC provided Water Division with a response to protests received from parties on April 25, 2019.

In its responses, SJWC indicated that it had complied with all noticing requirements for AL 532; the relief requested by AL-532 was in accordance with Commission adopted practices and procedures and was pursuant to Commission authorizations and did not require any formal hearings; and the tracking and subsequent recovery of lost revenue due to conservation was not unjust, unreasonable, or discriminatory.

Responding to PA protests SJWC responded the relief requested in AL532 would not result in SJWC exceeding its authorized rate of return and SCVWD continues to request voluntary water use reduction targets of 20% and SCWRCB has made several water use restrictions mandatory. Responding to City of San Jose and City of Monte Sereno, SJWC states that earlier rate increases were implemented in accordance with Commission orders and the relief requested follows directions established by Commission orders and D.18-11-025. Based on these, SJWC requests protests should be denied and AL 532 approved as filed.

As required by GO 96-B, General Rule 7.4.3, SJWC filed the response to the protests to AL 532 within 5 days of the end of the protests period and served the responses to all who filed the protests.

## **DISCUSSION**

SJWC seeks to recover the balances in the WCMA for reduced water consumption by customers that resulted from SJWC's implementation of water measures during the period of January 1, 2018 through December 31, 2018. Water Division recommends that the recovery of the WCMA balances should be based on the methodology adopted by the Commission in D. 90-08-055 and D. 91-10-042 should be approved for the reasons discussed below.

### *Recovery of conservation related revenue losses*

The Commission in D.90-08-055 and D.91-10-042 established the methodology for computing revenue losses resulting from mandatory and voluntary conservation

## PROPOSED RESOLUTION

Resolution W-5207 (Option B)  
WD

November 7, 2019

programs. D.91-10-042, Ordering Paragraph 3, also authorized recovery of revenue losses resulting from implementation of these types of water conservation measures contingent upon the following:

1. Approval of the utility's water management program;
2. Reduction of the memorandum account balance pursuant to the risk reduction adjustment set-forth in D.91-10-042; and
3. Offset of the memorandum account balance, where applicable, by water rationing.

SJWC is required, per Section 10620 of the Water Code, to prepare an Urban Water Management Plan (UWMP) every five years and to submit this plan to the California Department of Water Resources. Class A and B water utilities also submit their UWMPs as part of their General Rate Cases (GRCs). SJWC submitted to the Commission its UWMP for its service area as part of its GRC adopted through D.14-08-006. Water Division reviewed SJWC's UWMP and determined that it meets the water management plan requirements established by D.90-08-055, which include: 1) clear and specific goals for reducing water usage; 2) multiple approaches for conserving water; 3) long-term water conservation programs (including incentive-based programs); 4) cost-effectiveness of the programs; and 5) method for measuring the effectiveness of the programs.

SJWC applied the reduction of the memorandum account balance pursuant to the risk reduction adjustment of 20 basis points on equity in compliance with D.91-10-042.

SJWC computed the revenue shortfall through its WCMA as follows:

1. SJWC first recognized the most recently adopted water sales revenue per D.16-06-004.
2. SJWC then recorded the actual water sale revenue collected adjusted for existing Revenue Adjustment Mechanism;
3. SJWC also recognized the most recently adopted variable expenses for purchased water, pump tax, and power;

## PROPOSED RESOLUTION

Resolution W-5207 (Option B)  
WD

November 7, 2019

4. SJWC then recorded the actual variable expenses;
5. The total net WCMA balance was then calculated to be (Step 1 minus Step 2) plus (Step 3 minus Step 4); and
6. SJWC then computed the 20 basis point reduction on equity required by D.91-10-042.

Water Division reviewed SJWC's calculations and confirmed that it complied with the risk reduction adjustment adopted in D.91-10-042. The balance using the WCMA methodology resulted in a shortfall of \$9,020,356 of SJWC's 2018 revenue requirement, which is more than the 2% threshold for recovery through an advice letter. To avoid rate shock, Water Division recommends that SJWC should be permitted to amortize its WCMA balance over a period of 12 months. The recovery should be through a quantity-based surcharge of \$0.196 per ccf on all potable water usage.

### COMMENTS

Public Utilities Code Section 311(g) (1) generally requires that resolutions must be served on all parties and be subject to at least 30 days public review and comment prior to a vote of the Commission. On October 4, 2019, this Resolution was mailed for 30-day public review and comment to the utility and protestants, and to the parties on the service list for AL 532.

Comments on the proposed Resolution were timely received from \_\_\_\_\_ on October 24, 2019.

### SAFETY CONSIDERATIONS

The recovery of the balances in SJWC's WCMA will provide the utility with additional financial resources to *safely* operate and maintain its operations for the benefit of its customers, employees, and members of the general public.

### FINDINGS AND CONCLUSIONS

1. On March 29, 2019, San Jose Water Company filed Advice Letter (AL) 532 to request amortization of its Water Conservation Memorandum Account (WCMA)

## PROPOSED RESOLUTION

Resolution W-5207 (Option B)  
WD

November 7, 2019

for the period of January 1, 2018, through December 31, 2018. San Jose Water Company requested to recover in rates the amount of \$9,020,356 by adding a surcharge of \$0.196 per 100 cubic feet to the Quantity Rates in each customer's bill to be recovered over twelve months.

2. On April 28, 2019, the Water Division (WD) suspended AL 532 prior to its effective date because a resolution had to be drafted.
3. On April 25, 2019, San Jose Water Company timely filed a responses to Public Advocates, City of San Jose, City of San Moreno and Customers' protest to AL 532.
4. The Santa Clara Valley Water District (District) is responsible for managing the overall water supply in Santa Clara County. The District must rely on the actions of the water retailers, cities, and the county to enact and implement local ordinances and conservation measures.
5. On January 25, 2017 the District issued a request for a 20 percent voluntary water conservation of all water retailers in Santa Clara County.
6. San Jose Water Company is a water retailer in Santa Clara County.
7. Commission Decisions 90-08-055 and 91-10-042 established the method for computing revenue losses resulting from mandatory and voluntary conservation programs.
8. Commission Decision 91-10-042, Ordering Paragraph 3, authorized recovery of revenue losses resulting from implementation of these types of water conservation measures contingent upon San Jose Water Company meeting certain conditions.
9. San Jose Water Company satisfied the requirements of Decision 91-010-042, Ordering Paragraph 3.
10. The Commission authorized San Jose Water Company to compute balances using the WCMA methodology developed in Decision (D.) 90-08-055 and D. 91-10-042 using the Monterey style WRAM.
11. Using the WCMA methodology, the balance for the period January 01, 2018 through December 31, 2019 is \$9,020,356.



## PROPOSED RESOLUTION

Resolution W-5207 (Option B)  
WD

November 7, 2019

12. San Jose Water Company should be permitted to transfer \$9,020,356 from its Water Conservation Memorandum Account to a balancing account for recovery.
13. It is consistent with Standard Practice U-27-W for San Jose Water Company to assess a 12-month surcharge for recovery of the Water Conservation Memorandum Account balance.
14. The surcharge of \$0.196 per 100 cubic feet added to the quantity rates over twelve months herein would allow San Jose Water Company to recover in rates the \$9,020,356 in lost revenues.
15. Consistent with Public Utilities Code Section 792.5, San Jose Water Company shall track revenues collected under the surcharges authorized in this resolution in a balancing account and account for any over or under collection in its next General Rate Case.
16. The following tariff schedules should be approved in a Tier 1 Advice Letter filing as attached to this Resolution: 1) Schedule No. 1, General Metered Service; 2) Schedule No. 1B, General Metered Service with Automatic Fire Sprinkler System; 3) Schedule No. 1C, General Metered Service for Mountain District; and 4) Schedule No. RW, Raw Water Metered Service.

## PROPOSED RESOLUTION

Resolution W-5207 (Option B)  
WD

November 7, 2019

### **THEREFORE, IT IS ORDERED THAT:**

1. San Jose Water Company is permitted to transfer \$9,020,356 from its Water Conservation Memorandum Account to a Water Conservation Balancing Account for recovery. San Jose Water Company is authorized to earn interest on the balance in this balancing account at the 90-day commercial paper rate.
2. San Jose Water Company shall file a Tier 1 advice letter to incorporate a new Water Conservation Balancing Account in its Preliminary Statements and to delete Preliminary Statement I. Water Conservation Memorandum Account from Tariff Sheet No. 1699 with an effective date of December 31, 2018. Following the twelve-month amortization of the Water Conservation Balancing Account provided for in Ordering Paragraph No. 3, San Jose Water Company shall file a Tier 1 advice letter to delete the Water Conservation Balancing Account from its Preliminary Statements.
3. San Jose Water Company is authorized to implement a surcharge of \$0.196 per 100 cubic feet added to the quantity rates over twelve months to recover in rates the \$9,020,356 in lost revenues.
4. San Jose Water Company is authorized to file a Tier 1 Advice Letter to make effective the following tariff schedules as attached to this Resolution five days after approval of this Resolution:
  - a. Schedule No. 1, General Metered Service;
  - b. Schedule No. 1B, General Metered Service with Automatic Fire Sprinkler System;
  - c. Schedule No. 1C, General Metered Service for Mountain District; and
  - d. Schedule No. RW, Raw Water Metered Service.
5. San Jose Water Company is authorized to cancel the corresponding tariffs for the presently effective rate schedules listed in Ordering Paragraph 4 above.

## PROPOSED RESOLUTION

Resolution W-5207 (Option B)  
WD

November 7, 2019

This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on November 7, 2019; the following Commissioners voting favorably thereon:

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ALICE STEBBINS  
Executive Director

## PROPOSED RESOLUTION

Resolution W-5207 (Option B)  
WD

November 7, 2019

## CERTIFICATE OF SERVICE

I certify that I have by either electronic mail or postal mail, this day, served a true copy of Proposed Resolution No. W-5207 (Option B) on all parties in these filings or their attorneys as shown on the attached lists.

Dated October 4, 2019 at San Francisco, California.

/s/ROBIN BRYANT

Robin Bryant

Parties should notify Water Division, Third Floor, California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, CA 94102, of any change of address to ensure that they continue to receive documents. You must indicate the Resolution number on which your name appears.

## PROPOSED RESOLUTION

Resolution W-5207 (Option B)  
WD

November 7, 2019

### SAN JOSE WATER COMPANY ADVICE LETTER NO. 532 SERVICE LIST

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Protestants to Advice Letter 532